ON BUSINESS

Paying for business

Acquisitions help fleets grow, acquire drivers

By Denise Rondini

You want to expand your business but need more drivers and equipment to meet customer demand. For many fleet owners, one way to achieve growth in the booming economy is through acquisitions. While the process may be as simple as a handshake or a complex venture with a team of financial and legal experts, the successful integration of cultures is key to success.

"There are real capacity needs in the trucking industry today, and acquisitions are a way to fill them that need," says Steve Dutro, managing partner, Transport Capital Partners, a trucking industry mergers and acquisitions consulting firm. Add to that the fact that businesses have access to capital and Dutro says, "You have the perfect mix of companies that want to grow and expand and have the ability to do so and there is always a source of people who want to sell their businesses for various reasons."

Tom Marx, partner in Hart Marx Advisors, a company that handles mergers and acquisitions exclusively in the automotive and heavy-duty trucking industries, says fleets are looking at acquisitions for a number of reasons. "Fleets want to expand their territory, their market coverage or they want to expand into a different industry." He says the cost of running a fleet also is causing some fleets to consider expansion. "It has become tougher and tougher for fleets to deal with regulatory issues, so oftentimes they need to be able to grow larger so they can spread costs over a larger base."

Another big factor behind some recent acquisitions is the driver shortage. Jim Parham, managing partner at Transport Capital Partners, says, "We see lots of fleets that need 100 more drivers, and it is hard to go out and recruit an additional 100 drivers, so acquiring an existing business with 100 drivers is a smart way to go."

Before beginning the acquisition process — and make no mistake, it is a process — a fleet needs to determine why it wants to make an acquisition. Is it looking to strengthen operations within an existing network of freight movement, or are they looking to expand into a new geographic market? "Those are strategic decisions that need to be made before the process gets underway," Dutro says.

Once a fleet has determined that it wants to grow, it needs to set some criteria in terms of the size of the acquisition it can handle, both financially and operationally. "It is tough for a carrier with 300 trucks to buy a carrier with 250 trucks," Parham says. Conversely, a fleet of 300 has to ask if it makes sense to acquire a fleet with only 20 trucks. "Does that do anything for your overall business?" Dutro asks.

Planning for an acquisition is key, Marx says. "The preaching we do continually is plan ahead. Ready. Aim. Fire." Before getting into the actual process used for completing an acquisition, it is important to assemble a team of professionals to assist you. At the very least, that team needs to include your financial and legal advisers. However, you might want to give some thought to engaging the services of a mergers and acquisitions intermediary or broker/agent. Select a firm that has

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experience in trucking because it is likely they will have an extensive network of contacts in the industry, which increases your chance of finding a suitable company to acquire.

"Most carriers are knowledgeable and experienced at trucking; they are not knowledgeable and experienced about acquisitions," Dutro says. "An intermediary brings an expertise that can guide them through the process. Intermediaries have a network of relationships already built up in the industry so we can speed the process along to find the right target."

Marx cautions you to be very careful in your selection because you will be spending a great deal of time with the person tasked with helping you buy (or sell) a business. "Do you find them to be trustworthy, open and considerate? Bear in mind that they are going to be talking to others the same way they talk to you, so if they are abrasive and aggressive in a way that makes you uncomfortable, they are not a good fit," he says. He also suggests you check their references to ensure they have a good reputation.

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Once you have your team in place, the next step is to identify fleets that are potential acquisition targets. "There are a lot of truck lines out there," Dutro says, "and a lot of them fly under the radar. It is always a process of finding folks to fit the criteria the buyer has identified and to determine if they are serious about selling."

Your broker/agent is invaluable in finding potential acquisition targets because they have an established network of people who may not have publically announced that they are for sale but are in fact looking to sell their business.

Once a potential seller has been identified, some initial research will uncover things like the carrier's safety score, markets served, and other basic information about the business. Real due diligence does not occur until a letter of intent (LOI) is signed, but by reviewing a company's website and search results online, you'll discover some initial facts that can help you decide if you want to pursue the acquisition.

The next step is to begin to get to know the management of the business and build a relationship. It is at this point where the buyer may be asked to sign an NDA: a nondisclosure agreement.

Once that is signed, you want to start looking more closely at things like "fit in terms of size, operating territory and what they do for their customers," Dutro says. However, initially you need the financial statements and other information so you can do a proper business valuation and determine what to offer the seller for his company. Keep in mind that the seller may have had a business valuation completed in order to help him determine the asking price for his business. The difference between those two numbers is where the negotiation process comes into play.

After the LOI, which Parham describes as the handshake between the buyer and the seller, the buyer begins a period of due diligence, looking at things like equipment, driver qualifications, rates and lanes in order to determine if this is the right business to buy.

Marx says the buyer has to ask for the right information during the due diligence and then take time to review it. "Then you want to have discussions with key people in the business to see if you can find out anything that is not obvious."

You will also want to go to the business's location to look over the buildings and equipment to evaluate their condition.

Lana Batts, partner emeritus at Transport Capital Partners, says the process can be as simple as reviewing a phone system. Is yours like mine? Or evaluate what the seller is paying for tires and determine if adding the tire purchase of the seller to the acquirer's tire purchase will result in a better discount on tire purchases.

During the due diligence, it is important to protect the privacy of data. Batts advises that the seller puts his information in the cloud so the acquiring company can look at it. "Protecting data is important particularly when it comes to things like your driver list and your shipper list. Those are the last two items revealed during the acquisition process, and they need to be shared in a confidential way."

Another of the final pieces of information shared is the customer list, and Marx suggests that as part of the initial offering the seller add a clause that says before closing the buyer has the right to go out and speak with customers to make sure the customer is happy and is not all of sudden going to leave because the company is being sold.

At some point during the acquisition process, the buyer needs to determine how the deal will be structured. You can buy assets, which is where approximately 90 percent of the transactions take place, or you can buy the stock of the business or the ownership of the business. Parham says that is done based on your plans and on the management team at the acquired company. "Do you want them to stay forever to run the business, in which case they become your employees, or do you want them to stay through a transition period?" Part of the purchase price could be an incentive to the management team to ensure the business is successful throughout the transition of ownership, and

Avoid this mistake

"The worst thing a buyer can do is not treat a potential seller's information confidentially," says Steve Dutro, managing partner, Transport Capital Partners, a trucking industry mergers and acquisitions consulting firm.

"If you don't honor the trust and confidentiality of the data the potential seller is giving you during the deal, it may spoil the deal and future deals, too."

Tom Marx, partner in Hart Marx Advisors, a company that handles mergers and acquisitions exclusively in the automotive and heavy-duty trucking industries, says a big mistake buyers make is not being thorough enough in their due diligence "You really want to find out all the stuff that is hidden in the closet. What is the seller not telling you?"

Ignoring cultural differences between the two companies is also a big mistake, Marx says. "If the two cultures are totally different, it is likely you are going to lose key people and even key customers because of the shock over the differences in the way your business is operated and in the two philosophies."

this could be based on driver or customer retention, as an example.

There is no standard answer as to how long it takes to buy a business. A potential seller may be identified quickly, or it could take months to find the right business. The length of time to complete due diligence depends on how responsive the seller is to getting the buyer-requested documents and information.

Once the acquisition is complete, the real work begins. A good fit culturally should be one of the key criteria during the search, and if the acquisition process was done correctly, the melding of cultures, while complicated, should not be onerous.

Today a culture fit is more important than ever. Dutro explains that 20 years ago it was common to lose a third of the drivers and a third of the customers following an acquisition.

"Today people are much more focused on being as successful as possible in retaining drivers, keeping operational staff and customers," he says. "Today it is about finding a good fit culturally to keep the acquired business intact at least through an orderly transition period."

Batts offers some practical advice to help determine if the two cultures will mesh, emphasizing that acquisitions usually fail not because of financing, but because of culture. As silly as it may sound, she says to look at the bathrooms of both businesses. "If the bathrooms look the same, the companies are probably a good match, and it does not matter if they are really clean or super dirty, just that they are the same."

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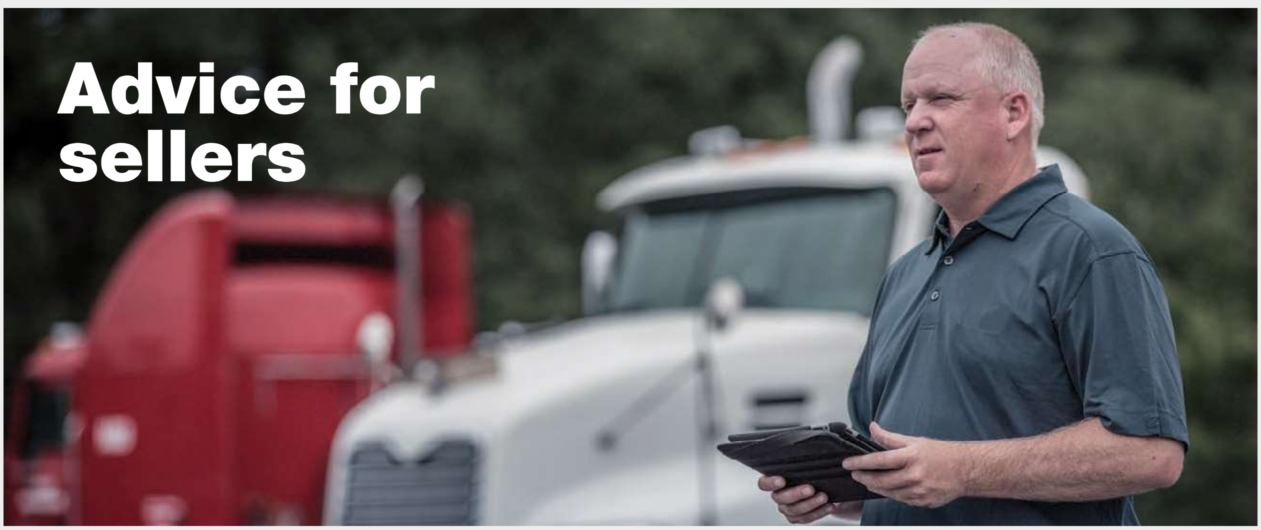
Acquisitions that work best are ones where the employees of the acquired company don't go into culture shock when they go to work the day after the acquisition. As Marx says, "Really look for that cultural fit as much as the financial fit."

The bottom line for a successful acquisition, Marx says, "is for a buyer to be clear about criteria regarding size, location, type of customer, geographic reach and culture."

"You need to be willing to walk away if the opportunity does not fit" and go look for another that better matches what you want, he says. ■



Advice for sellers

If you are thinking of selling your business, Lana Batts, partner emeritus at Transport Capital Partners, suggests you ask yourself why anyone would want to buy your company. "You have to try to find a hook that would entice the buyer to come and look at your company."

"If you are selling, you want to focus on your strengths, and you want to be able to explain your weaknesses and offer advice on what can be done about those weaknesses," she says.

She also cautions sellers to be realistic about what their business is worth. This is where an outside business valuation firm can bring value because they concentrate on the facts, leaving emotion aside.

Batts also suggest not waiting until the last minute to try to sell your business because that may force you to sell for less than the business is worth. Develop a five-year plan that lays out what you need to do to get the company ready to sell at the highest value possible.

Tom Marx, partner in Hart Marx Advisors, says getting your company ready to sell includes things like cleaning up your financial statements. He adds, "Make sure your P&L statement is informative, clean out old inventory and make sure you don't have mysterious things on your balance sheet that will arouse suspicion.

"Part of the process is to determine that you are clear when you go to sell. When someone asks you about your EBITDA, you give them the adjusted number that includes things like family personal expenses, personal airplanes, vacation homes that you are paying for through your business but that will go away once the business sells."

Marx also advises sellers to look for someone who can pay cash for your business. "You don't want to get into some long-term deal where if your business does X amount of business you will get more money. That is not a particularly smart way to sell a business. You want to have cash and be able to walk away and let the buyer run the business."